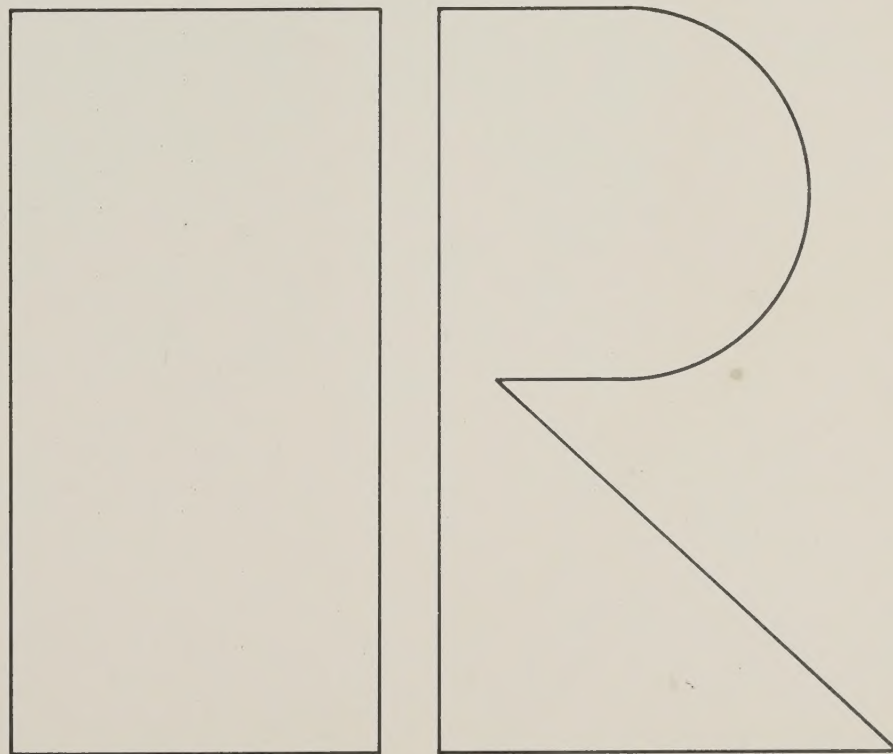


1971 ANNUAL REPORT RUSSELL HOLDINGS LIMITED



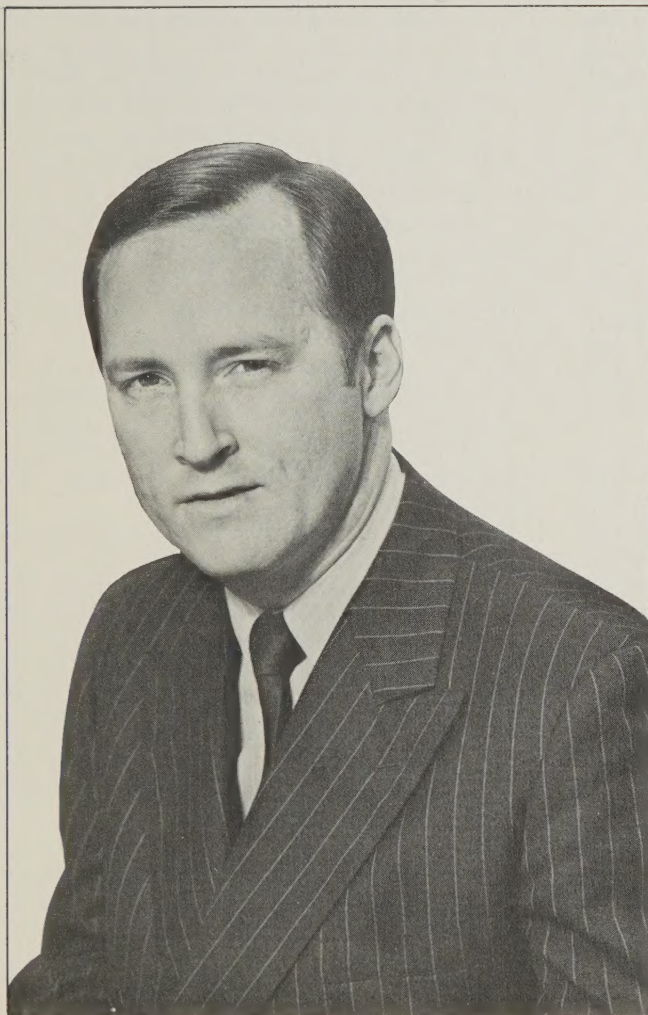
<i>Directors</i>	Gordon K. Russell Don Mills, Ontario Brian Y. Davidson Willowdale, Ontario John D. Medwell Toronto, Ontario Wyke Arengo-Jones Toronto, Ontario Donald G. Watt Toronto, Ontario *J. J. Courtemanche Thornhill *Dennis R. O'Connor Toronto
<i>Officers</i>	Gordon K. Russell President John D. Medwell Secretary-Treasurer Wyke Arengo-Jones Vice President Research and Development
<i>Head Office</i>	800 Dorchester Boulevard West Suite 2610 Montreal, Quebec
<i>Subsidiary Company</i>	Gordon K. Russell Foods Limited Etobicoke, Ontario
<i>Registrar and Transfer Agent</i>	The Guaranty Trust Company of Canada Montreal, Quebec
<i>Auditors</i>	Thorne, Gunn, Helliwell & Christenson
<i>Annual Meeting</i>	June 28, 1972, 10:00 a.m. Bramhill, Yale & Russell Limited 1439 St. Mathew Street Montreal, Quebec

*Of Gordon K. Russell Foods Ltd.

FINANCIAL HIGHLIGHTS

	For the year ended Dec. 31, 1971	From incorporation on Oct. 16, 1970 to Dec. 31, 1970
Sales	\$ 52,338	\$22,484
Management fees earned	36,440	—
Net income (loss)	(50,509)	2,865
Loss per share	.05¢	—
Working capital (deficiency)	182,286	(9,740)

PRESIDENT'S LETTER TO THE SHAREHOLDERS



During this first year as a public company, Russell Holdings Limited, has moved forward according to plan.

The attached statements to December 31, 1971 show that, to date, we have concentrated on two particular areas — first, distribution of a unique brand of frozen cookies under your company's brand name; secondly, a substantial portion of our revenue has emanated from a continuing managerial contract with CDRH Limited.

Now it gives me pleasure to report that several additional activities have been undertaken by your company. Since these new programs complement our other products and services, we look forward to much improved results in the present year.

New Russell interests include:

- European and North American rights to a patentable electric appliance for toasting both hot dogs and buns. Plans to merchandize this promising line either through sub-contract manufacturing or licensing are already well advanced.
- Entry into corporate communications consulting, with emphasis on product development and marketing, through formation of a new subsidiary, Bramhill, Yale & Russell Limited of Montreal.
- Improved production techniques may result in a reduced sales price for our Russell cookies — with prospects of sharply improved volume in 1972.
- Introduction, starting in July, of a complete line of Italian frozen food products with a 1973 sales target of \$700,000.

Corporate History

The 1971 operating results were derived exclusively from the activities of a subsidiary company of Russell Holdings Limited, Gordon K. Russell Foods Limited. Russell Foods was incorporated in Ontario, under the laws of Canada, in October 1970, to seek out and develop new products and other innovations in the Canadian food industry, retail and institutional.

Later, in February 1971, Russell Holdings Limited was incorporated under the laws of Quebec and in May 1971, it acquired all the issued and outstanding shares of Russell Foods.

In July 1971, Russell Holdings made a public offering of 250,000 common shares. This offer was fully subscribed.

Frozen Foods

Russell cookies are a new line of frozen, pre-formed ready-to-bake cookies.

They were introduced late in 1970. By mid-1971, Russell cookies had excellent distribution in the grocery chains in Ontario; also, some distribution in Quebec, Manitoba and British Columbia. In the important Ontario market, the product was promoted and advertised, particularly in support of the pre-Christmas peak sales period for ready-to-bake cookies.

1971 Sales of Russell cookies were \$52,300 but the required investment in introduction advertising and promotion prevented any profits being earned in the first year. This is expected in the food business; it is not uncommon to plan for a 2 or 2½ year payout on the costs of launching a new product.



PRESIDENT'S LETTER *continued*

Subsequent to the end of the fiscal year, we have made new plans for the future development of the Russell frozen food business. The cookie line will be modified, to improve its appeal to the housewife; we are also investigating the potential for the Canadian market of a successful line of Italian-style frozen foods, presently manufactured in the U.S.A. and distributed mainly in the North Eastern states.

Consulting

Subsequent to the end of the fiscal year, a new subsidiary — Bramhill, Yale & Russell Limited — was established in Montreal. It provides marketing consulting services, also advertising and promotion materials. It is planned to start contributing to profits in the second half of 1972, after a six-month development period.

In February 1971, Russell Foods signed a two-year contract with CDRH Limited (now Foodex Systems Limited). We provide consulting and management services to the client's Honeydew Products Division. Arising from the market analysis and development undertaken in 1971 by Russell Foods, sales and profits for the first 4 months 1972 are ahead of budget in the client's Honeydew Products Division.

In 1971 management fees from the Russell consulting operation were \$36,400.

Electric Appliance

Mr. Davidson, a director of your company, has invented a patentable electric appliance for grilling wiener sausages and toasting hot dog buns to prepare delicious hot dogs in about 3 minutes. Russell Holdings has acquired all Canadian rights to this invention, plus an option for the rights in U.S.A. and the rest of the world.

There are no competing appliances on the North American market and the novelty of our appliance makes it difficult to forecast demand accurately. Nevertheless, taking regular bread toasters as a benchmark, Statistics Canada reported factory shipments in 1970 at 650,000 units with a value of \$6.4 million. We also know that hot dogs are second only to hamburgers in popularity for family feeding.

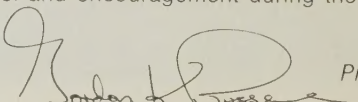
The total sales of all small electric appliances in Canada are in the range of \$150 million. Subsequent to the end of 1971, your management has developed a plan by which the company will profit from its share of this large market.

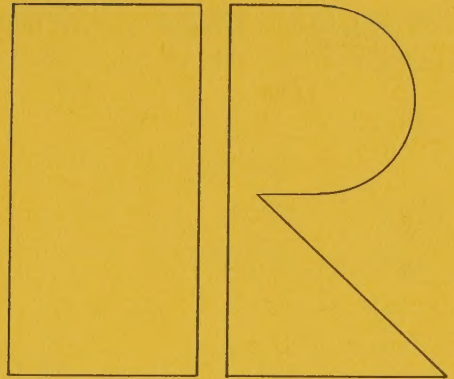
We have developed a working prototype model of the new hot dog cooking appliance, which is illustrated at the end of this report. This prototype is now developed to the point of being submitted for C.S.A. approval, and production drawings are being finished.

Future Outlook

Development steps, as I have outlined above, will be taken as quickly as possible, consistent with taking the time to ensure that we are acting in the long-run best interests of your company. 1972 will be a development year and significant profits will not be earned. In 1973, however, you can expect much more. Earnings will begin to be generated in significant amounts, particularly from the hot dog appliance.

I must place on record more than the formal vote of thanks to our directors. I owe much to all of them, and am indeed most grateful for their counsel and encouragement during the year.


Gordon H. Russell *President*



AUDITOR'S REPORT

To the Shareholders of Russell Holdings Limited

We have examined the consolidated balance sheet of Russell Holdings Limited and subsidiary company as at December 31, 1971 and the consolidated statements of income, retained earnings (deficit) and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Canada March 28, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

RUSSELL HOLDINGS LIMITED
(Incorporated under the laws of Quebec)
and subsidiary company

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

ASSETS

	<u>1971</u>	<u>1970</u>
CURRENT ASSETS		
Cash_____	\$ 24,609	\$ 2,708
Deposit certificate_____	150,000	
Subscriptions receivable_____		672
Accounts receivable		
Trade_____	5,769	5,657
Other_____	4,162	
Inventory at lower of cost and replacement cost_____	44,681	11,228
Prepaid expenses_____		1,910
	<u>229,221</u>	<u>22,175</u>
 INVESTMENT, at cost less amortization_____	 <u>1,097</u>	
 DEFERRED CHARGES, at cost less amortization		
Market research_____	1,100	2,200
Package design_____	3,389	6,778
Film separations_____	2,040	4,080
	<u>6,529</u>	<u>13,058</u>
 OTHER ASSETS, at cost		
Formulae_____	200	200
Incorporation expense_____	2,616	1,200
	<u>2,816</u>	<u>1,400</u>
	<u>\$239,663</u>	<u>\$36,633</u>

RUSSELL HOLDINGS LIMITED
and subsidiary company

**CONSOLIDATED STATEMENT OF
SOURCE AND APPLICATION OF FUNDS**

YEAR ENDED DECEMBER 31, 1971 (with comparative figures
from incorporation on October 16, 1970 to December 31, 1970)

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 46,935	\$30,241
Loan from shareholder		1,674
	<u>46,935</u>	<u>31,915</u>
DEFERRED INCOME TAXES		<u>855</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (notes 2 and 3)		
Russell Holdings Limited		
Authorized — 5,000,000 common shares without par value		
Issued — 1,000,030 common shares	240,372	
Gordon K. Russell Foods Limited		
Issued — 998 common shares		998
RETAINED EARNINGS (DEFICIT)	(47,644)	2,865
	<u>192,728</u>	<u>3,863</u>
	<u>\$239,663</u>	<u>\$36,633</u>

Approved by the Board

Gordon K. Russell Director
John D. Medwell Director

	1971	1970
SOURCE OF FUNDS		
Operations		
Net income for the period		\$ 2,865
Add deferred income taxes not involving current funds		855
		<u>3,720</u>
Proceeds from issue of shares net of financing costs of 10,658	<u>\$239,374</u>	<u>998</u>
	<u>239,374</u>	<u>4,718</u>
APPLICATION OF FUNDS		
Operations		
Loss for the year	50,509	
Items not involving current funds		
Amortization of research, design and film separation costs	(6,529)	
Deferred income tax reduction	855	
	<u>44,835</u>	
Deferred charges		
Market Research		2,200
Package design		6,778
Film separations		4,080
Purchase of investment	1,097	
Formulae		200
Incorporation expenses	<u>1,416</u>	<u>1,200</u>
	<u>47,348</u>	<u>14,458</u>
Increase (decrease) in working capital position	192,026	(9,740)
Working capital (deficiency) at beginning of period	(9,740)	
Working capital (deficiency) at end of period	<u>\$182,286</u>	<u>\$ (9,740)</u>

RUSSELL HOLDINGS LIMITED
and subsidiary company

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

YEAR ENDED DECEMBER 31, 1971 (with comparative figures
from incorporation on October 16, 1970 to December 31, 1970)

	1971	1970
Retained earnings at beginnings of period	\$ 2,865	
Net income (loss) for the period	(50,509)	\$ 2,865
Retained earnings (deficit) at end of period	<u>\$ (47,644)</u>	<u>\$ 2,865</u>

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1971 (with comparative figures
from incorporation on October 16, 1970 to December 31, 1970)

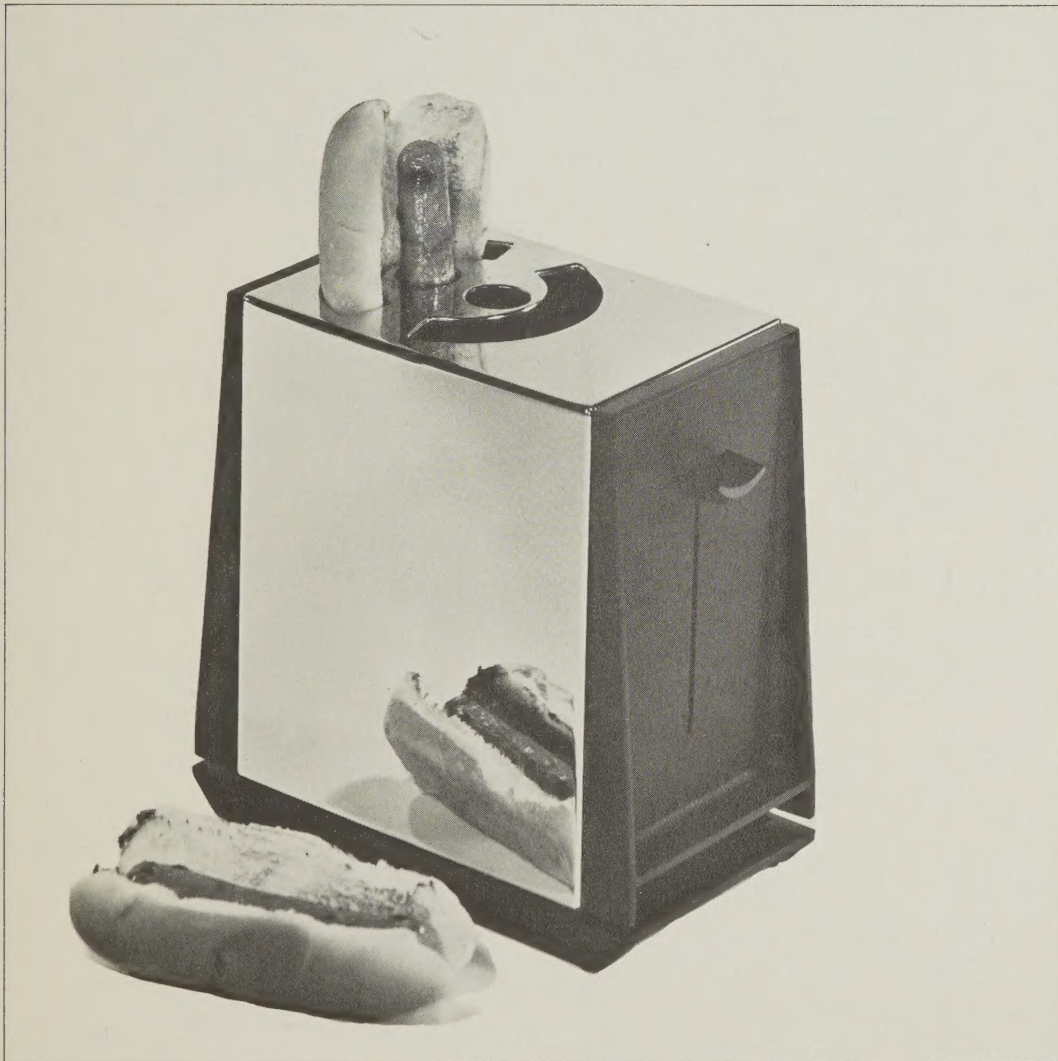
	1971	1970
Revenue		
Sales	\$ 52,338	\$22,484
Cost of goods sold		
Inventory at beginning of period	11,228	
Purchases	63,764	24,486
Freight and duty	1,705	627
	76,697	25,113
Inventory at end of period	44,681	11,228
	32,016	13,885
Gross profit	20,322	8,599
Expenses		
Selling expenses		
Warehousing	4,127	419
Commissions	2,415	924
Promotion		
In store	13,589	602
Other	13,708	419
Cash discounts	535	148
Advertising	23,209	
Consulting services	1,858	
Package materials	5,242	915
Amortization of research, design and film separations costs	6,529	
	71,212	3,427

CONSOLIDATED STATEMENT OF INCOME (Continued)

	1971	1970
Expenses brought forward	\$ 71,212	\$ 3,427
General and administrative		
Telephone and telegraph	526	224
Office supplies and stationery	754	213
Salaries and employee benefits	24,348	107
Office expense	1,155	273
Donations	100	
Travel		
Car	2,483	
Other	1,651	
Legal and audit	4,658	250
Repairs and maintenance	176	
Subscriptions and memberships	403	
Bank interest and exchange	714	
Rentals, automobile	660	
Insurance	356	
Other	2,622	385
	40,606	1,452
	111,818	4,879
Income (loss)	<u>\$ (91,496)</u>	<u>\$ 3,720</u>
Other income		
Interest and other sundry revenue	3,692	
Management fees earned	36,440	
	40,132	
	(51,364)	3,720
Deferred income taxes (reduction)	(855)	855
Net income (loss) for the period	<u>\$ (50,509)</u>	<u>\$ 2,865</u>
Loss per share based on shares outstanding at December 31, 1971	<u>.05¢</u>	

Working prototype model of new Russell electric appliance for cooking hot dogs — the bun and the wiener sausage.

Patent applications have been filed.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — DECEMBER 31, 1971

1. BASIS OF CONSOLIDATION

Russell Holdings Limited was incorporated on February 15, 1971 under the laws of Quebec.

The consolidated financial statements, accounted for on a pooling of interest basis includes the accounts of Gordon K. Russell Foods Limited from incorporation on October 16, 1970. (See note 2(a)).

2. CAPITAL STOCK

- (a) Pursuant to an agreement dated May 5, 1971 the company acquired all the issued and outstanding shares of Gordon K. Russell Foods Limited, being 1,000 common no par value shares, (1970 — 998 shares) on the basis of 750 common shares of the company for each share of Gordon K. Russell Foods Limited.
- (b) During 1971 the company issued on a best effort basis, through the company's agent, 250,000 common shares at a price of \$1.07 that netted the company \$250,000 less the expenses related to the issue of \$10,658. The 30 incorporating shares were issued for cash.

3. OPTION AGREEMENT

On May 5, 1971, the company entered into an option agreement with an officer of the company for the purchase of 25,000 shares at a price of \$1.50 per share. The option period commences May 5, 1973 and continues for four years therefrom, and provides that such options are exercisable to the extent of not more than 25% of the shares in any one year.

4. SUBSEQUENT EVENTS

- (a) Pursuant to a shareholders' agreement dated March 15, 1972, the company purchased 750 common shares for an amount of \$75 being 75% of the issued shares of a newly incorporated company, Bramhill, Yale and Russell Limited. Under this agreement the company agreed to guarantee a line of credit in the amount of \$20,000.
- (b) Pursuant to an option agreement dated March 6, 1972, with a director of the company, the company has options to acquire certain territorial patent rights that if exercised the maximum liability of the company would be \$400,000.

5. INCOME TAXES

At December 31, 1971, the companies have losses of approximately \$47,500 available to reduce future income for tax purposes, the tax effect of which has not been recorded in the accounts.

Russell frozen pre-formed ready-to-bake cookies, introduced late in 1970.



